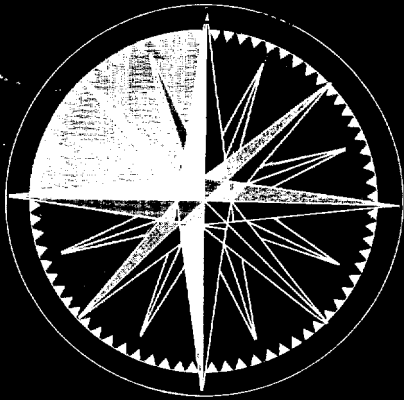


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SPECIAL REPORT

PROSPECTS FOR ECONOMIC ADMINISTRATIVE REFORM IN THE USSR

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

State Dept. review completed



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PROSPECTS FOR ECONOMIC ADMINISTRATIVE REFORM IN THE USSR

The Soviet leadership has apparently had difficulty deciding how to effect the changes it promised in the management of industry. This is a major cause of the long delay in convening the party central committee plenum on industrial management. The problems stem from the complexity of the issues and the widespread opposition to significant reforms. Recent evidence indicates that when the plenum does meet, it may adopt a sweeping reorganization of the central economic administrative apparatus but will not approve major changes in planning and management methods.

The improved pricing system and other basic reforms called for in recent liberal proposals appear unlikely to be adopted. Moreover, there is little likelihood that the plenum will approve a broad extension of recent liberal experiments. Rather, such experiments will probably continue to be introduced slowly and cautiously as they have been in recent months. There is some chance, however, that somewhat greater autonomy will be permitted industrial enterprises, possibly through a revision of legislation governing the powers of enterprise directors.

Promised Changes

On coming to power, the Brezhnev-Kosygin leadership expressed deep dissatisfaction with the administrative confusion created by Khrushchev's "hasty and ill-advised" reorganizations. The new leaders called for a critical but circumspect review of the central economic administrative structure. More important, they stressed that real progress in solving the USSR's major economic problems--falling rates of industrial growth, waste of resources, lagging improvement in technology, and poor quality of products--could not come from administrative reorganization alone.

At the December 1964 session of the Supreme Soviet, the leaders announced that various proposals both for clearing away administrative confusion and for fundamental reforms of economic management would be reviewed and that decisions would be reached. The first of these are expected to be presented and approved at the plenum.

The Distorted Economic Administration

Khrushchev's repeated reorganizations wrenched the apparatus for administering industry into a bewildering patchwork

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of fragmented and overlapping agencies. Responsibility for planning is separate from the management of enterprises and the supply system.

The State Planning Committee (Gosplan) is largely responsible for determining economic plans, but it has little authority for putting them into practice. Gosplan, moreover, shares its planning authority with the USSR Economic Council (Sovnarkhoz), the USSR State Committee for Construction Affairs (Gosstroy), the industrial ministries, and sixteen state committees for individual branches of industry. These committees are charged with ensuring the adoption of new technology in their respective industries, but they have little authority to impose their decisions on individual enterprises. Real directive authority over much of the economy is now vested mainly in the USSR Sovnarkhoz and the republic and regional sovnarkhozes. The country's supply and marketing organizations and most industrial enterprises are subordinate to these councils. The separation of planning from operational responsibilities results in uncoordinated supply and production plans with their attendant shortages, excesses, and bottlenecks.

Many proposals for straightening the administrative mess have called for strengthening the directive powers of Gosplan, thereby reducing those of the USSR Sovnarkhoz, restoring ministerial status and managerial power to the state committees for

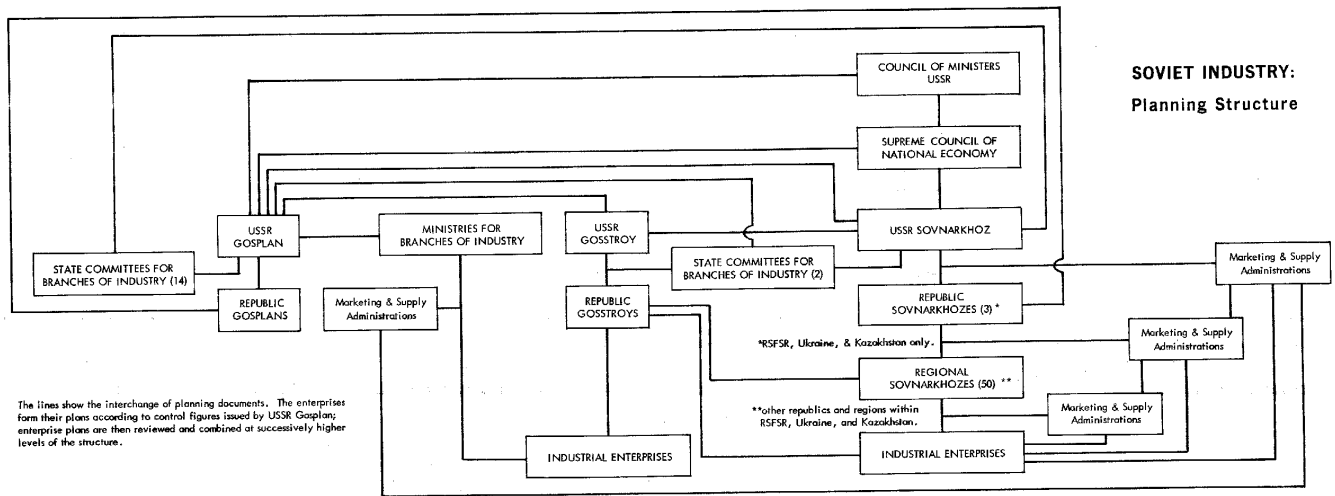
specific branches of industry, and abolishing the regional sovnarkhozes. A step toward implementing these proposals was the March 1965 reorganization in which seven ministries were re-established and their control over defense industry enterprises was restored. The regional sovnarkhozes, however, have been defended by many party and administrative spokesmen, primarily as a means to control local economic activity. It is possible that a compromise may be worked out in which the regional councils would be retained but with greatly reduced powers.

Any major reorganization would cause the relocation of many administrative personnel and a possible loss of power by local party officials. For this and many other reasons the extent and details of any reorganization proposals are probably hotly debated at the highest levels.

Planning and Management Reforms

In September 1962 the Liberman proposals advocated a sharp increase in the planning and operational powers of enterprises and urged that profitability be made the main criterion of performance. This touched off a widespread debate on the amount of autonomy and the kinds of incentives that should be granted to enterprises in order to improve their efficiency and performance. The debate is still continuing although Soviet leaders and economists agree that the present system is far from satisfactory.

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Planning Structure

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Other related proposals have called for imposing interest charges on fixed and working capital, adopting full-cost pricing in which interest charges would be included as costs, improving the criteria for determining investment, and abolishing the present allocation system for producer goods.

Only a minority of Soviet economists have made and publicly supported these liberal proposals. The majority of economic administrators and academic economists have publicly opposed many of the suggested reforms, claiming that they are either unworkable or inimical to central planning. The general principles of increasing the use of the profitability criterion and giving greater freedom to enterprises, however, have gained widespread acceptance, but disagreement on the implementation of these principles continues.

Experiments at Reform

In mid-1964 during the final months of Khrushchev's tenure, a series of experiments, based in part on Liberman's proposals, were introduced in two garment firms--Bol'shevichka in Moscow and Mayak in Gor'kiy. The objective was to determine whether the quality of the clothing improved --and whether sales rose accordingly--by letting the firms decide specifications and assortment of products on the basis of customer orders. The experiment's main features included:

- Direct ties, or contracts negotiated without an intermediary authority, among producers, their outlets, and their suppliers;
- A sharp reduction in the number and detail of the enterprise's commitments to planning authorities;
- Imposition of a profitability criterion to determine managerial bonuses.

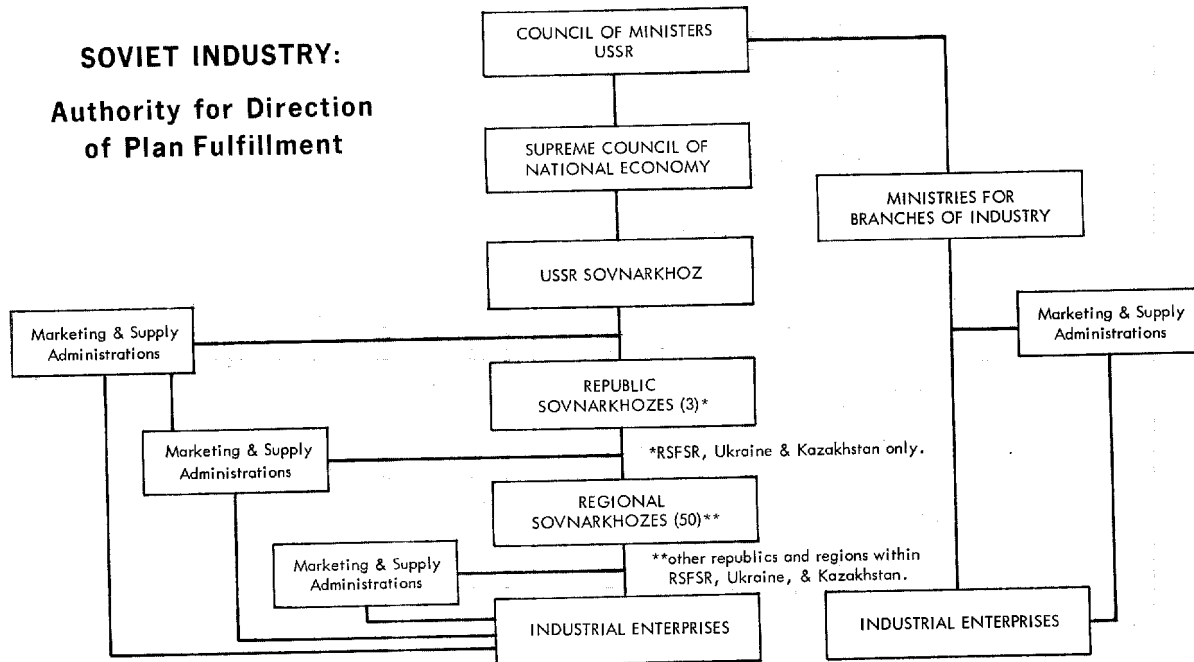
The textile experiments granted more freedom to the enterprises than is recommended in most of the proposals by liberal economists, and many features of the experiments have been criticized by conservative elements in the government, party, industry, and the universities. In late October 1964, however, the new leadership proclaimed that the tests had been successful, and it ordered these principles extended to a large sector of light industry in 1965. In Kossygin's December 1964 speech to the Supreme Soviet, he announced that at least the "direct ties" feature of the new system should be extended also to heavy industry --particularly to machine building and metallurgy. Since December, however, the tests are known to have been applied in only three heavy industry enterprises.

Other recent evidence indicates that new experiments have been introduced cautiously and hesitantly. Since March, expansion of the new system in industry has been limited primarily to enterprises selected previously for inclusion. Some of the more liberal features--the increases

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Authority for Direction
of Plan Fulfillment**



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in enterprise freedom and use of the profitability criterion-- may have been discarded in a few instances. New tests have been started in an increasing number of retail stores and restaurants but in only four industrial enterprises.

In May when Liberman was asked whether the tests were to be extended further, he replied that he was not at liberty to say. More recently, some high Soviet government officials interviewed by the US Embassy tended to discount the importance of the experiments. One official implied that the plenum may consider

other means of granting greater freedom to enterprises. The immediate prospect is therefore for the continued slow introduction of additional experiments but no decisive action by the plenum.

The Debate Continues

A.G. Aganbegyan, head of the Institute of Economics in Novosibirsk, recently delivered a harsh indictment of Soviet management of economic resources. The main implication of his talk was that the USSR's economic problems are too serious to be solved by minor tinkering and

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that drastic reform is necessary. He argued in part that the present use of inefficient and archaic methods of economic planning and management causes an extreme waste of resources. Much of what he said has been said before, but not so pointedly.

The US Embassy reports that the speech created a "considerable stir" in Moscow circles this summer.

Prospects for Basic Reforms
In Planning and Management

The chances seem slim that the forthcoming party plenum will adopt major new reforms in planning and management methods. A

majority of economic administrators and academic economists as well as some top party officials believe that the reshuffling of functions and personnel among top economic agencies and similar minor changes, would be enough to bring about considerable improvement in economic management. Basic reforms such as the adoption of prices that accurately reflect total costs or the abolition of the present "command system" in the allocation of producer goods, apparently have little support. Recent Soviet press articles indicate, however, that some action may be taken to speed the revision of legislation governing the powers of enterprise directors and to grant them somewhat greater freedom.

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